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Non-Social Security Surplus Up Significantly in Latest Estimate

CBO Offers Even More Reasons To Cut Taxes

The Congressional Budget Office (CBO) today released its latest budget estimates, and its encouraging news underscores the health of our economy. The on-budget (i.e., non-Social Security) surplus is now estimated to materialize a year earlier than was projected in April — reaching $14 billion in 2000. This non-Social Security surplus will amount to $294 billion over the 2000-2004 period — a $110 billion improvement over the April projection — and $996 billion over the 2000-2009 period — a $171 billion improvement from the April estimates. [See attached charts.]

What do these numbers mean? Simply, that there is even more reason for Washington to cut taxes. The FY 2000 budget passed by Congress calls for a $778 billion tax cut over the FY 2000-2009 period and a $142 billion tax cut over the FY 2000-2004 period. These proposed tax cuts come exclusively from non-Social Security surplus funds. Because the Social Security surplus was "off the table," no net tax cut was proposed under the budget resolution for FY 2000 when no on-budget surplus was estimated to exist. Obviously, CBO's latest projection of a $14 billion on-budget surplus substantially changes the picture for both the first year and the outyears.

The most important factor to keep in mind: All these additional on-budget surplus dollars were generated by non-payroll tax sources. All of the payroll tax surplus is included in the $1.9 trillion off-budget surplus (itself a $122 billion improvement from April estimates). Thus the on-budget surplus is largely the product of personal income tax payments — income and capital gains taxes. This effective overpayment should be returned to those who made it.

CBO's Improved Estimates Due to Economy

The bulk of CBO's improved surplus projection comes once again from the economy. Over the 10-year FY 2000-2009 period, the overall federal budget surplus — both the Social Security and non-Social Security — will increase by $293 billion. Of that $293 billion, $263 billion — 90 percent — is due to estimated beneficial economic impact. This economic improvement is reflected almost equally in improved revenue estimates in the first half and in lower outlay projections in the second half of the 10-year period. The increase in revenues is directly attributable to the increased estimates of the economy's growth in the next three years. The decrease in spending is due to the fact that increased surpluses will lead to reductions in publicly held debt (thus reducing interest payments), and restrained demand for government aid programs due to the strong economy.

The economy's performance has continued to confound estimators, including CBO's. CBO estimates that **real GDP growth** will be 4 percent this year — a dramatic increase from its January estimate of 2.3-percent growth. A similar though less dramatic improvement is anticipated for 2000 and 2001 where CBO has increased its estimate from 1.7 percent to 2.4 percent in 2000, and from 2.2 percent to 2.4 percent in 2001 for real GDP growth.

The **inflation** outlook has also improved. The Consumer Price Index (CPI) is expected to rise just 2.2 percent in 1999, as compared to the earlier estimate of 2.5 percent. Next year's CPI is expected to be slightly lower, falling from January's 2.6-percent estimated rate to 2.5 percent. This 0.1-percent reduction is anticipated to continue throughout the 10-year period, with inflation not being anticipated to breech the historically low 2.5-percent level.

The **unemployment** estimate has shown perhaps the most significant and prolonged improvement. The 1999 rate is estimated to remain at the 29-year-low level of 4.2 percent — down from January's estimate of 4.6 percent. Even better is the fall from 5.1 percent to 4.3 percent in 2000 and from 5.4 percent to 4.6 percent in 2001. Such relatively low unemployment rates are anticipated to continue throughout the next four years, with unemployment not breaking the 5-percent level until 2003 (5.1 percent — down from the earlier estimated 5.7 percent level).

Only **interest rates** show a deterioration in CBO's latest analysis — and only slightly and for a short time-period. The 10-year Treasury note is anticipated to have a 5.6- percent rate this year (versus an earlier estimated 5.1-percent rate), 5.9 percent next year (versus January's 5.3-percent rate), and 5.5 percent in 2001 before stabilizing at the earlier estimated 5.4- percent rate for the remainder of the 10-year period.

Differences Between CBO's and OMB's Estimates

CBO's new estimates do not differ dramatically from those the Administration released earlier this week. According to the Administration's Office of Management and Budget (OMB), the on-budget surplus over the next five years will be $226 billion as compared to CBO's $294 billion estimate. By comparison, OMB estimates that the on-budget surplus over the whole ten-year period will be $1.076 trillion as compared to CBO's $996 billion estimate. Interestingly, the ten-year estimates for the off-budget surplus (Social Security) has CBO estimating $1.901 trillion versus OMB's $1.840 trillion.

CBO projects slightly less spending over the next five and ten years — $61 billion and $71 billion respectively — than does OMB. CBO projects $51 billion more in revenues over the FY 2000-2004 period than does OMB; however, CBO projects $91 billion less in revenues over the whole 10-year period. As a result, CBO shows a $68 billion larger on-budget surplus over the FY 2000-2004 period but an $80 billion smaller one than does OMB over the 10-year period.

Finally, under CBO's latest estimate, publicly held federal debt would fall from $3.618 trillion in 1999 to $865 billion in 2009. That $865 billion figure is roughly half the amount of what OMB projects the public debt level would be under President Clinton's proposed budget — $1.625 billion.

Would You Return a Lost Wallet?

CBO's latest estimate shows that there will be even more of a non-Social Security surplus than was originally projected. Washington cannot pretend to treat this money like it has found a lost wallet with no ID. It is patently obvious whose money this is and to whom it should be returned. It is the product of an overpayment of personal income taxes from millions and millions of hard-working Americans and their families. It is more money than is needed to run the entire federal government and it is completely separate from every penny of revenue — payroll tax receipts and interest earned on its trust fund balance — of Social Security.

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[Attached: charts.]

CBO SURPLUS ESTIMATES

(by fiscal years in billions of dollars)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	Five-Year Total 00-04	Ten Year Total 00-09
CBO July 1999 Capped Baseline Estimates *													
On-Budget	-4	14	38	82	75	85	92	129	146	157	178	294	996
Off-Budget	125	147	155	164	172	181	195	205	217	228	235	820	1901
Total	120	161	193	246	247	266	286	334	364	385	413	1114	2896
Changes: April to July													
On-Budget	12	19	27	23	24	17	13	13	12	11	13	110	171
Off-Budget	-2	9	10	11	11	10	11	12	14	16	18	52	122
Total	10	28	37	34	35	28	24	25	26	27	31	162	293

* Assumes that discretionary spending will equal the statutory caps on such spending through 2002 and will grow at the rate of inflation thereafter.

SURPLUS DIFFERENCE: CBO's Minus OMB's

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	Five-Year Total 00-04	Ten-Year Total 00-09
Surplus	21	21	25	27	25	14	1	-8	-24	-42	-59	112	-20
On-Budget	20	11	14	17	18	7	-1	-12	-27	-46	-62	68	-80
Off-Budget	1	9	11	10	7	6	2	4	3	4	3	44	60

[Some numbers don't add due to rounding.]